



Ernest H. Wolkin

CHARTERED ACCOUNTANT

January, 2011

Dear Client:

YEAR END INFORMATION & 2010 PERSONAL INCOME TAX RETURN

****** PLEASE SEE PAGE 7 FOR IMPORTANT MEMO ******

There are many new items which were introduced into law last year. Some will affect the filing of your 2010 personal income tax return while others may assist you in receiving additional income or credits during the year. The following is a summary, with short explanations, of these changes. For further clarification, please contact me directly.

1. TAX FREE SAVINGS ACCOUNT (SEE PAGE 4 TOP) CLARIFICATION OF RULES

As of January 2, 2009, TFSA's have been available to any Canadian age 18 or older. You will be able to contribute \$5,000 annually (to be indexed in the future) to a TFSA. The contribution is NOT tax deductible but the income earned will NOT be taxable. In 2010, due to a lot of confusion regarding the withdrawal and replacement rules, the government has clarified how to withdraw and replace your withdrawal.

2. SENIOR HOMEOWNERS PROPERTY TAX GRANT NEW FOR 2010

Ontario's 2008 announcement that the Senior Homeowners Property Tax Grant will increase from \$250 to \$500 in 2010 has been confirmed. The maximum grant can be obtained by seniors who pay at least \$500 in property taxes and have incomes not exceeding \$35,000 for single seniors or \$45,000 for senior couples. The maximum grant is reduced proportionately when income exceeds these thresholds and is eliminated once income reaches \$50,000 for single seniors and \$60,000 for senior couples.

3. U.S. SOCIAL SECURITY BENEFITS NEW FOR 2010

Canadian-resident recipients of certain types of U.S. social security benefits are, pursuant to Article XVIII of the Canada-U.S. Tax Convention, required to include in income only 85% of the amount of the benefit. For U.S. social security benefits received after 2009, the budget reduces the inclusion rate to 50%, to restore the rate that applied before 1996.

To qualify for this reduced inclusion rate, a taxpayer is required to have been resident in Canada continuously since 1996 and to have received the qualifying social security benefit throughout that period. If such a taxpayer has died, the spouse or common-law partner may qualify for the reduction if the spouse or partner was resident in Canada continuously since 1996 and received the social security benefit continuously since the taxpayer's death. If you have started receiving the pension **AFTER** 1995 you are still required to include 85% of the amount received.

4. MEDICAL EXPENSE TAX CREDIT - PURELY COSMETIC PROCEDURES NEW FOR 2010

Expenses incurred after March 4, 2010, for purely cosmetic procedures will not qualify for the medical expense tax credit. A cosmetic procedure will continue to qualify for the medical expense tax credit if it is required for medical or reconstructive purposes.

Continued...

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5.	BENEFITS ENTITLEMENT - SHARED CUSTODY	NEW FOR 2011
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Under existing rules, only one eligible individual can receive the Canada Child Tax Benefit, the Universal Child Care Benefit or the child component of the GST/HST tax credit in respect of a qualified dependant. For parents who live separately, but share custody of a child more or less equally, the budget proposes to allow each eligible individual to receive half of the annual entitlement that they would have received if they were the sole eligible individual. This measure will apply to benefits payable commencing July, 2011.

6.	UNIVERSAL CHILD CARE BENEFIT FOR SINGLE PARENTS	NEW FOR 2010
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The Universal Child Care Benefit provides families with \$100 a month for each child under the age of six years. Commencing 2010, the budget allows a single parent the option of including the benefit in his or her income or in the income of the dependant for whom an eligible dependant credit is claimed. If a single parent is unable to claim an eligible dependant credit, the benefit can be included in the income of one of the children for whom it is paid.

RRSP's

INCREASED CONTRIBUTION LIMITS

The maximum dollar limit on RRSP contributions for 2010 has been increased to **\$22,000**. In 2011, the limit increases to **\$23,000** where it will be indexed thereafter.

For 2010, the RRSP contribution limit is 18% of your 2009 earned income to a maximum of \$22,000 PLUS any unused contribution limit from 1991 - 2009. The maximum will be reduced by a pension adjustment (reported on your 2009 T4) where you are entitled to either Registered Pension Plan or Deferred Profit Sharing Plan benefits.

AGE LIMIT

The age limit for contributing to registered pension plans (RPPs) and RRSPs is 71. Individuals must also mature their RRSPs by the **END** of the year in which they celebrate their 71st birthday and commence to withdraw from their RRIF's in the year they turn 72.

CONTRIBUTIONS MUST BE MADE ON OR BEFORE TUESDAY MARCH 1ST, 2011 IN ORDER TO OBTAIN A DEDUCTION FROM 2010 INCOME.

Your 2010 contribution limit can be determined by one of the following methods:

- (a) When I prepared your 2009 income tax return our client letter stated how much you were eligible to contribute, **(please confirm with amount (b) below)**;
- (b) Your 2009 Notice of Assessment mailed to you by the government has a separate section outlining how much you are eligible to contribute. **DON'T FORGET TO REDUCE THE AMOUNT BY ANY UNUSED CONTRIBUTIONS FROM 2009 AND/OR PRIOR YEARS WHICH ARE REFLECTED ON YOUR NOTICE OF ASSESSMENT JUST BELOW YOUR CONTRIBUTION LIMIT;**
- (c) You can call the T.I.P.S. Automated Phone Service at 1-800-267-6999 or 1-800-959-8281 to speak to a CRA representative;
- (d) You can call our office and I will give you your 2010 contribution limit.

PLANNING POINTS TO CONSIDER

1. Contributions to an RRSP should be made at the beginning of the year to maximize the tax-free accumulation of income in the plan.
2. Interest on funds borrowed to contribute to an RRSP is not deductible. Accordingly, consideration should be given to increasing debt where the interest expense is deductible and using savings for the RRSP contribution.
3. **AN INDIVIDUAL OVER 71 MAY NOT CONTRIBUTE TO AN RRSP. HOWEVER, IF THE SPOUSE IS UNDER 72, CONTRIBUTIONS COULD BE MADE TO A SPOUSAL RRSP SUBJECT TO EARNED INCOME LIMITS OF THE CONTRIBUTOR.**
4. An RRSP may be collapsed in a low income year. (e.g. sabbaticals, maternity leave, year of forming a professional practice, year in which losses are incurred)

5. It may be possible to have a self-administered RRSP invest in a mortgage on your home. The mortgage must be insured by a corporation offering its services to the public in Canada as an insurer of mortgages (e.g., Canada Mortgage and Housing Corporation) and administered by an approved lender under the National Housing Act.
6. An individual intending to give up Canadian residency can elect to file a separate return for income from an RRSP. This election would be beneficial where the individual's marginal tax rate would be lower than the withholding tax rate. The foreign tax implications of making the election should be considered.
7. An individual may consider making a non-cash contribution (e.g., shares with an inherent capital gain) to an RRSP. The individual would be deemed to have disposed of those shares at fair market value and must recognize the capital gain. **HOWEVER, A CAPITAL LOSS WOULD BE DENIED IN THIS CASE.**
8. An additional RRSP deduction may be available if you received a "retiring allowance" prior to the end of 2010. In general, you may transfer to your RRSP an amount up to \$2,000 per year of service before 1996, plus \$1,500 per year of service before 1989 during which you were not a member of an RPP or DPSP. In order to waive the usual withholding tax on retiring allowances, have your employer contribute these amounts directly to an RRSP for you.
9. Tax-free withdrawals of up to \$10,000 a year from RRSPs will be allowed to help with the RRSP annuitant's, or his or her spouse's expenses if enrolled in a qualifying post-secondary educational program. A maximum of \$20,000 can be withdrawn over a six-year period. After ceasing full-time studies, the withdrawn amounts must be repaid to the RRSP over 10 years otherwise they will be included in income. Generally it will only make sense to contribute to an RRSP if the student can claim a deduction from income and reduce his or her tax bill.
10. On death, the value of an individual's Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF) may be transferred tax-free to an RRSP or RRIF for a surviving spouse or, if there is no surviving spouse, to other qualifying dependants who are financially dependent. Effective for deaths after 1998, this relief for the deceased's estate for distributions to other qualifying dependants will now be available even if there is a surviving spouse. On election, the measure will be retroactive for deaths that occurred after 1995. Other special transitional measures will apply to defined situations involving pre-2002 distributions. While this is a positive change, it should be noted that qualifying dependants are generally limited to minors and infirm children or grandchildren. In the case of minors, the deferral can only be in the form of a short-term annuity for the period to age 18.
11. An individual is allowed to contribute \$2,000 over their contribution limit.

TAX FREE SAVINGS ACCOUNTS

As of January 2, 2009, Canadian resident individuals have been able to contribute to a Tax Free Savings Account (TFSA) which will allow them to earn income on savings and investments on a tax free basis. The TFSA parallels an RRSP except that contributions are not deductible and the withdrawals of contributions and income earned in the account are not taxable. As well while the primary purpose of the RRSP is for retirement, the TFSA offers shorter term tax free savings along with longer term financial planning.

FEATURES

1. Contributions are limited to \$5,000 per year which is indexed to inflation to individuals 18 or over - **NO AGE LIMITATION.**
2. While there is an annual limit there is no lifetime contribution limit and any unused contribution room can be carried forward. As well, withdrawals made from the TFSA will be added to the unused TFSA contribution room.
3. Investments eligible for a TFSA are the same as an RRSP. Similarly the transfer of non-registered capital properties to a TFSA will create a deemed sale at fair market value which may result in a taxable capital gain. **ANY CAPITAL LOSSES WILL NOT BE DEDUCTIBLE.**
4. Contributions to a TFSA of a spouse or child (18 or over) will not result in attribution to the contributor. The contribution must be within the available contribution room.
5. Withdrawals from a TFSA will not affect the eligibility for GST and Age credits or the Old Age Security and Child Tax Benefits.
6. Your TFSA limit will be tracked on your notice of assessment.

PEOPLE GOT THEMSELVES INTO DIFFICULTIES WITH CRA BY WITHDRAWING MONEY FROM A TFSA AND THEN PUTTING IT INTO A TFSA AT ANOTHER FINANCIAL INSTITUTION. YOU NEED TO DO A "DIRECT TRANSFER" OF A TFSA FROM ONE FIRM TO ANOTHER, JUST AS PEOPLE COMMONLY DO WITH RRSP's.

HOWEVER

IF YOU DON'T DO A "DIRECT TRANSFER" AND WITHDRAW AN AMOUNT FROM YOUR TFSA DURING THE YEAR, RECONTRIBUTIONS NEED TO WAIT UNTIL THE NEXT CALENDAR YEAR. THE PENALTY FOR DOING THIS IN THE SAME CALENDAR YEAR AS YOUR CONTRIBUTION IS 1% PER MONTH FOR CONTRIBUTIONS OVER \$5,000 IN ANY YEAR.

In terms of the financial impact of a TFSA if one can invest \$5,000 annually for 40 years at 5% compounded, this will result in a value of approximately \$634,198. This calculation does not include the impact of indexing to inflation which could result in a substantial increase.

It is expected that this TFSA will now become part of the popular tax planning tools such as the RRSP, and RESP and should offer substantial options for Canadians.

HOME BUYERS' PLAN

The Home Buyers' Plan allows first time home buyers to withdraw tax-free up to \$25,000 from their RRSPs to buy or build a qualifying home.

- Participant must have signed a written agreement to buy or build a qualifying home (single-family homes, semi-detached homes, townhouses, mobile homes, condominium units and apartments in duplexes, triplexes, four-plexes or apartment buildings);

CONDITIONS

- Participant must be the annuitant under the RRSP; withdrawals under a spousal plan are not permitted;
- The withdrawal request must have been made in 2010;
- Participant must be a resident of Canada at the time the funds are received;
- First-time participants have to be considered a first-time home buyer (participant or spouse must not have owned a home while occupying it as a principal place of residence in the last 5 years). For second-time participants see below:
- Participant has to buy or build a qualifying home before October 1, 2011;
- ***IF YOU HAVE MADE A CONTRIBUTION TO YOUR RRSP WITHIN 90 DAYS OF THE WITHDRAWAL, THE CONTRIBUTION WILL NOT BE DEDUCTIBLE.***

Over a period of no more than 15 years, the participant has to repay the amounts withdrawn under the Home Buyers' Plan. Each year, the participant has to repay 1/15 of the total amount withdrawn until the full amount is repaid. Participants in the 2010 Home Buyers' Plan will have to start their repayment in 2012 and end it in 2026. Participants can repay the amount sooner if they so choose.

If the participant designates an amount less than the amount that has to be repaid, the difference will have to be included as income in the tax return. If the participant designates more than the amount that has to be repaid, the balance due in later years is reduced (divide the balance to be repaid by the number of years remaining in your repayment period).

If the participant dies, the full unpaid balance has to be included as income in the final tax return, unless the surviving spouse elects to make repayments into an RRSP. If the participant becomes a non-resident, the unpaid balance of the funds must be repaid or included as income in the year of non-residency. When you reach the age of 71, you can choose to repay the unpaid balance or include as income, for each later year it becomes due, the amount that would have been the annual repayment.

An individual is allowed to participate in the plan even if the individual has previously owned a home. Such individuals have to qualify for the disability tax credit or be related to an individual who qualifies for such credit. The initial withdrawal need not be repaid before a second withdrawal occurs.

Any individual who fully repays a home buyers' withdrawal after 2010, may, in a subsequent year, be allowed another withdrawal subject to the above-noted conditions.

SPLIT CPP PAYMENTS BETWEEN SPOUSES

One way to avoid clawbacks and reduce tax-instalment payments is to split income sources between spouses. Many taxpayers are unaware that, as of January 1, 1987, rights to Canada Pension Plan retirement benefits can be assigned to a spouse, including a common-law spouse.

This is an excellent way of splitting the reporting of the CPP retirement income between spouses. For the purpose of income splitting, the benefits must be retirement benefits, and either a single or double assignment of benefits may be made.

Under a single assignment, only one spouse has applied for or is receiving the CPP retirement benefits. The other spouse will not have previously made CPP contributions, and must be at least 60 years of age. The result of assignment is that part of the pension received by the contributor is paid to, and therefore reported by, each spouse on the tax return.

Under a double assignment, both spouses will be eligible to receive (or are receiving) CPP retirement benefits, but total benefits received by both will be distributed evenly. Total pensions payable to each individual will be split; that is, it is not possible to split only one spouse's CPP retirement pension. The amount that is split between spouses is calculated as 50% of the number of months in the marriage, divided by the number of months in the contributory period (starting from age 18 or January, 1966). Retirement benefits from CPP do not qualify as "earned income for RRSP purposes."

Also remember that, in the year a taxpayer starts receiving benefits from CPP, there is no longer a requirement to contribute premiums to the plan through employment or self-employment. Therefore, any CPP premium amounts paid after the month in which the taxpayer starts to collect CPP benefits, will result in an overpayment, which can be applied for when you file your tax return. This usually results in an extra tax refund.

The same rule holds true in the year of death, when premiums need only be paid up to the date of death, or in the year a taxpayer turns 70, when no premiums are required after that month.

REGISTERED EDUCATION SAVINGS PLANS (RESPs)

RESPs are plans which allow individuals to save money for post-secondary education. Under these plans, individuals make contributions which are held in trust in order to generate income to be used to finance the post-secondary education costs of the trust beneficiaries. RESP contributions are not deductible to the contributor and may be returned to the contributor tax free. The income on contributions to the RESP accumulates tax free until distributed to the beneficiary of the plan. The income is then taxed in the hands of the beneficiary.

The number of years in which contributions can be made after the opening of the plan is 31 years. For beneficiaries eligible for the disability tax credit(DTC) it is 35 years.

The deadline for plan termination is the 35th anniversary of the opening of the plan. For those eligible for the DTC the termination is the 40th anniversary.

There is no annual limit on RESP contributions. The overall lifetime contribution limit is \$50,000 per beneficiary.

The major drawback to RESPs has been the risk created if funds were not used to pay for the post-secondary education of a trust beneficiary. For example, if an only child decided not to go to university, the contributor would receive back his contributions but forfeit any accumulated income. The risk has been largely removed. Contributors can receive RESP income directly if all named beneficiaries of the RESP are not pursuing post-secondary education by *age 31* and the plan is at least 10 years old.

The contributor will be allowed to transfer, on a tax deferred basis, RESP income (up to a lifetime limit of \$40,000) to a registered retirement savings plan (their own or a spousal plan). This applies provided that the contributor has RRSP deduction room for the year of the transfer at least equal to the amount of the transferred RESP income. RESP income in excess of RRSP deduction room will be subject to both tax at the contributor's regular tax rates and a special 20% penalty.

The government will provide a Canada Education Savings Grant (CESG) of 20% on the first \$2,500 of annual contributions made to RESPs for children up to age 18. The maximum grant will be \$500 per child per year. Families that miss contributions may catch up in later years, in which case the CESG will be paid on contributions up to \$5,000 per year. The lifetime CESG limit is \$7,200.

The grant and the investment income it generates will be paid to the student while enrolled in eligible full-time post-secondary education or training programs. If the RESP beneficiary does not pursue higher education or training, the CESG must be repaid.

(6)

For 2010, the **additional** CESG rate on the first \$500 contributed to an RESP for a beneficiary who is a child under 18 years of age is:

- 40% (extra 20% on the first \$500), if the child's family has qualifying net income for the year of \$40,970 or less; or
- 30% (extra 10% on the first \$500), if the child's family has qualifying net income for the year that is more than \$40,970 but is less than \$81,941.

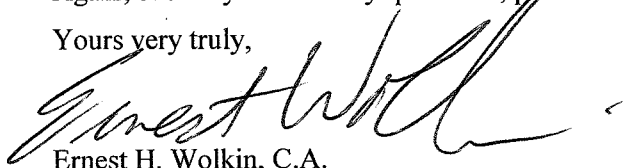
I HAVE ATTACHED A LIST OF THE MOST COMMON ITEMS WHICH PEOPLE FORGET TO OBTAIN. THIS LENGTHENS THE PROCESSING TIME OF A RETURN.

THE DEADLINE FOR FILING YOUR 2010 INCOME TAX RETURN IS MONDAY MAY 2, 2011. HOWEVER, I WOULD APPRECIATE IF YOU CONTACT OUR OFFICE AS EARLY AS POSSIBLE TO AVOID ANY LAST MINUTE RUSH.

On the following pages I have prepared for your convenience, a checklist of information that may be used in preparing your return. I ask that when you bring in your information you endeavour to provide me with all the appropriate data so that I can process your return efficiently.

Again, should you have any questions, please do not hesitate to contact me.

Yours very truly,



Ernest H. Wolkin, C.A.

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Encl.

Continued...

**THE MOST COMMON ITEMS WHICH PEOPLE FORGET TO
OBTAIN BEFORE COMING
TO OUR OFFICE**

1. **TUITION RECEIPTS**

Form T2202A must be obtained. The student can go to the educational institution's web site and download the form. The university **DOES NOT** mail these out. Paid tuition receipts are **NOT** acceptable. For tuition paid outside of Canada, Form TL11A must be submitted.

2. **CAPITAL GAINS (LOSS) REPORTS**

These are normally prepared by the brokerage firms upon **REQUEST ONLY!!** Some brokerage firms automatically send these out but others will not unless asked. They may give you a hard time but they will do it eventually. A **TRADING SUMMARY IS NOT SUFFICIENT**. It must be a **GAINS (LOSS) REPORT**. Don't take **NO** for an answer!!

3. **T3 AND T5013**

The deadline for these forms is March 31st, not February 28th, like most forms. Please ensure that you have all of them.

4. **RRSP RECEIPTS**

Receipts for contributions made in the first 60 days of 2011 normally come separately after receipts for contributions made in calendar 2010.

5. **NOTICES OF ASSESSMENT/REASSESSMENT**

Important carry-forward amounts can be found on these as well as any interest paid to you by CRA. This interest **MUST** be included in income in the year when received.

6. **RENT/REALTY TAXES**

For low income earners, especially students, this can be a valuable credit. For students please remember that it is rent paid in the calendar year 2010, **NOT THE SCHOOL YEAR!!!**

7. **INSTALMENTS**

In February, 2011 those people who have paid instalments in 2010 will receive a receipt showing the total instalments paid in 2010. Please review this to ensure you have been correctly credited with all the instalments you have paid. I require a copy of this written confirmation.

APPENDIX
INFORMATION REQUIRED FOR COMPLETION OF PERSONAL INCOME TAX RETURNS

(PLEASE NOTE: Not all the items listed below may be applicable to you.)

	Yes	No
1. T3 - trust receipts information slip	—	—
T4 - statement of remuneration paid from employment	—	—
T4A - statement of other remuneration, pensions etc.	—	—
T4A(0AS) - statement of Old Age Security benefits	—	—
T4E - statement of employment insurance benefits	—	—
T4RSP - statement of RRSP proceeds	—	—
T4RIF - statement of RIF proceeds	—	—
T4A(P) - statement of Canada Pension Plan benefits	—	—
T5 - statement of investment income	—	—
T5013 - statement of partnership income, flow-thru income and expenses	—	—
Other T Slips -	—	—
2. Receipts of contributions to RRSP.	—	—
3. Alimony or maintenance received or paid pursuant to a legal separation agreement plus a copy of the agreement in the year of any change.	—	—
4. Expenses (please itemize, list and total) relating to:		
(a) moving;		
(b) automobile (including gas, parking, maintenance, etc.);		
(c) business promotion;		
(d) medical expenses (which include payments to a private health plan) for which you were not reimbursed by a provincial health insurance plan or a private health plan;		
(e) child care (including S.I.N. of payee).	—	—
(f) Details of public transit passes	—	—
(g) Tradesperson tools expense receipts	—	—
(h) Children's Fitness Tax Credit	—	—
<i>ALL COMMISSIONED SALESMEN AND EMPLOYEES CLAIMING EXPENSES MUST OBTAIN SIGNED T2200(A) (DECLARATION OF CONDITIONS OF EMPLOYMENT) FROM THEIR EMPLOYERS.</i>		
5. Form T2202(A) - Education Deduction Certificate.	—	—
Form TL11A - Education Deduction Certificate - outside of Canada	—	—
6. List of capital gains and losses by transaction, showing;		
(a) original cost;		
(b) proceeds of sale;		
(c) costs of sale;		
(d) settlement date of sale.	—	—
7. Allowable business investment losses relating to arms length dispositions of shares or debt of an active Canadian controlled private corporation.	—	—
8. Receipts for all charitable donations, regardless of amount.	—	—
9. Any notices of assessment or re-assessment pertaining to prior years.	—	—
10. Receipts for realty taxes or rental payments made in 2010. Amounts paid and jurisdiction or landlord are sufficient. This will apply mostly to low income earners, students and seniors.	—	—
11. If any information has changed since 2009, such as address, marital status or new dependants, please list these for me.		
12. If I did not prepare your 2009 return, please submit a copy of it or your last returned filed and Notice of Assessment.	—	—
13. Copies of any financial statements of business or ventures that you have participated in, if not prepared by me.	—	—
14. Letters from any lending institutions from which you borrowed money for investment purposes, indicating the amount of interest paid in 2010.	—	—
15. Effective January 1, 2005 a non-refundable adoption expense tax credit was implemented. Eligible expenses include adoption agency fees, court and legal costs, travel expenses and the like. There is a \$10,975 maximum per child. <u>THIS CREDIT CAN ONLY BE CLAIMED IN THE YEAR THAT THE ADOPTION IS FINALIZED.</u>	—	—
16. Receipt for total personal instalments paid to CRA for 2010.	—	—